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RUEHLO/AMEMBASSY LONDON PRIORITY 2334

RUEHFR/AMEMBASSY PARIS PRIORITY 6407

RUEHRO/AMEMBASSY ROME PRIORITY 2237

RUEHFK/AMCONSUL FUKUOKA PRIORITY 2189

RUEHNAG/AMCONSUL NAGOYA PRIORITY 0060

RUEHNH/AMCONSUL NAHA PRIORITY 4537

RUEHOK/AMCONSUL OSAKA KOBE PRIORITY 5977

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SUBJECT: METI COMMENTS ON JAPANESE ELECTRONICS INDUSTRY

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Summary  
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¶1. (SBU) Japanese electronics manufacturers are expected to announce grim 3rd quarter financial results over the coming days. The Ministry of Economy, Trade and Industry (METI) acknowledges the difficult conditions affecting this bellweather sector of Japan's economy, but is looking more at adjustments the industry should make to improve long-term competitiveness once the current crisis is past. Anticipating continued price pressure from foreign competition, METI's sense is some of the restructuring that companies are carrying out now will translate into good opportunities once demand improves. End Summary.

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Grim News  
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¶2. (SBU) Japan's electronics and IT industries are world leaders and part of the bedrock of Japan's economy, but they too have been hit hard in the global economic crisis. In recent days, Japanese media have reported Panasonic will close three overseas manufacturing plants in Malaysia and the Philippines and is projected to report record losses approaching USD 3 billion for the year ending in March. Semiconductor chip makers NEC, Toshiba, and Renesas will stop producing at older production lines and consolidate at more efficient facilities. Each company will lay off roughly 1,000 temporary workers. Ricoh reportedly will cut production over 10 percent, lay off 250 temporary workers, and reduce hours for many more. Reports of financial results for the third quarter (Oct - Dec) are expected to be poor. Scheduled reports include: Sony, Toshiba, and NEC January 29; Fujitsu January 30; Panasonic February 4; and Sharp February 6.

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A Government View  
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¶13. (SBU) Emboff discussed the state and prospects of the electronics sector with METI Information and Communication Electronics Division Director Takayuki Sumita. Sumita noted METI had expressed concern in a September 2008 report on the sector. He reiterated the well-reported problems firms face -) reduced demand, a strong yen, and poor credit availability -) but also asserted that industry is responding aggressively.

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Responding to Challenges  
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¶14. (SBU) Sumita cited over-production as one challenge facing the industry and, while the current crisis is painful, felt consolidation could make Japanese industry more competitive in the future. While he sees Japanese electronics manufacturers' responsiveness to customer needs as a strength, Sumita observed small or special orders can be costly and companies squeezed by price pressures may sacrifice flexibility.

¶15. (SBU) Japanese manufacturers' tendency to maintain very broad product lines, Sumita argued, also reduces competitiveness. He suggested Japanese electronics manufacturers will need to be more competitive and that greater specialization will be an important trend. He cited Toshiba's success, prior to the current downturn, specializing somewhat in non-flash memory and nuclear power applications, and asserted that this strategy is sound and should help Toshiba when demand starts to recover. Unfortunately, in the current market, this specialization has also exposed Toshiba to greater short-term risks. As companies cut production and reduce inventories to weather

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the current market, Sumita would like to see them take the opportunity to streamline to improve their post-crisis competitiveness.

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Weathering the Storm  
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¶16. (SBU) Contrasting electronics and autos, Sumita noted in addition to consumer electronics products, the industry produces components for a wide range of other sectors. It is therefore fairly diversified across the economy. While this situation does not mitigate a downturn like the current one, he suggested both the fall and recovery in electronics will likely be more gradual than in autos.

¶17. (SBU) Asked about possible government assistance to hurting electronics manufacturers, Sumita said they would be eligible for the same sort of support available to ailing firms in other sectors. Such aid could include a range of possible measures directed at markets or at individual companies, but he said METI is not yet considering direct assistance to any specific electronics firms.

¶18. (SBU) In conclusion, he opined there are talented leaders in several electronics sector companies and, while companies' reactions vary considerably to the global economic situation, they are responding urgently and seriously. Without specifying particular companies, he thought some will do better than others. However for the industry as a whole he seemed optimistic that it would weather the storm and could emerge stronger as a result.

ZUMWALT